Debt Management

Under Sections 3.101 to 3.216, inclusive, of the Transportation Article of the Annotated Code of Maryland, the Maryland Department of Transportation (MDOT) is authorized to issue Consolidated Transportation Bonds (CTBs). CTBs are fixed rate bonds with maturities of up to 15 years. CTBs do not constitute a debt or a pledge of the faith and credit of the State of Maryland. The principal and interest are paid from the proceeds of certain pledged taxes, fees, and other revenues in the Transportation Trust Fund. The aggregate amount of the outstanding and unpaid principal balance for CTBs is restricted by statute and by annual limits in the budget bill.

MDOT may also issue Certificates of Participation (COPs) in which MDOT enters into a lease agreement with a third party to lease an asset over a specified period of time at a predetermined amount. The lease payments pay the debt service principal and interest on the leased assets. COPs are fixed rate issuances with maturities of up to 25 years and typically secured by a specific revenue source.

In the past, the Maryland Transportation Authority (MdTA) and the Maryland Economic Development Corporation (MEDCO) have issued debt on behalf of MDOT. Limits for non-CTB debt (COPs, conduit issuances) are established each year by the General Assembly in the State budget.

The Department manages its debt outstanding by two coverage tests: pledged taxes and net revenues. The pledged taxes test captures MDOT's portion of the 8.25% Maryland corporation income tax, motor fuel tax, motor vehicle titling tax, the State's general sales tax, and a portion of the State's sales and use tax on rental vehicles as compared to maximum annual debt service. The net revenues test is a ratio of total receipts of the Department (excluding federal aid, bond proceeds, or other receipts not available for debt service less administration, operating and maintenance expenses) to maximum debt service.

MDOT will not issue new bonds unless both the pledged taxes of the prior fiscal year and the net revenues for the prior fiscal year are each equal to at least two times maximum annual debt service. Although both tests require 2.0 times coverage, the Department's administrative policy is to provide 2.5 times coverage. The additional coverage acts as a cushion against revenue and expense variations and thus allows time to adjust the financial strategies while maintaining the capital program.

Debt Ratings

The rating agencies have consistently rated MDOT debt very high. In the past, all three rating agencies (Standard and Poor's, Moody's, and Fitch) have cited MDOT's prudent management practices and strong coverage of debt service as major strengths. They note a stable outlook based on working cash levels and steady growth in revenues.

MDOT's Outstanding Debt Issuances

MDOT issues bonds to provide a portion of the capital funds needed for the Consolidated Transportation Program which MDOT has developed to provide comprehensive planning and coordinated implementation for the highway, transit, port and aviation activities of the State. Below is a list of MDOT's outstanding debt issuances.

	Outstanding as of June 30, 2010	Ratings S&P/Moody's/Fitch	Source of Payment
Consolidated Transportation Bonds			
Series 2002	105,000,000	AAA/Aa1/AA+	TTF
Series 2003	117,000,000	AAA/Aa1/AA+	TTF
Series 2003 (2nd)	152,100,000	AAA/Aa1/AA+	TTF
Series 2004	268,800,000	AAA/Aa1/AA+	TTF
Series 2004 RF	51,355,000	AAA/Aa1/AA+	TTF
Series 2006	96,000,000	AAA/Aa1/AA+	TTF
Series 2007	98,000,000	AAA/Aa1/AA+	TTF
Series 2008	226,755,000	AAA/Aa1/AA+	TTF
Series 2008 (2nd)	280,000,000	AAA/Aa1/AA+	TTF
Series 2009	110,000,000	AAA/Aa1/AA+	TTF
Series 2010A	14,000,000	AAA/Aa1/AA+	TTF
Series 2010B	126,000,000	AAA/Aa1/AA+	TTF
Total Consolidated	**$ 1,645,010,000**		
Certificates of Participation			
Series 1999 Pier B and Deicing	20,070,000	AA/Aa3/AA-	Airline Fees
Series 2000 MTA Parking Garage	13,390,000	AA/Aa3/AA-	Parking Fees
Series 2004 COPS BWI Shuttle Buses	9,000,000	AA+/Aa2/AA-	TTF
Series 2006 COPS Port * Warehouse	23,830,000	AA+/Aa2/AA-	Port Revenue
Total COPS	**$ 66,290,000**		
Conduit Issuers			
MEDCO Series 2002 HQ building	3,375,000	AA+(S&P), Aa2 (Moody's)	TTF
MEDCO Series 2010 HQ building	22,715,000	AA+(S&P), Aa2 (Moody's)	TTF
MEDCO Series 2003 Piers A/B *	201,015,000	Aa2 (Moody's), AA- (Fitch)	Airline Fees
MDTA Series 2002 Parking *	220,575,000	A2 (Moody's), A- (Fitch)	Parking Fees
MDTA Series 2002 Rental Car * Facility	105,855,000	A3 (Moody's), BBB (Fitch)	Customer Fee
MdTA Series 2003 PFC Bonds	42,300,000	Aa2 (Moody's), AA (Fitch)	PFC Fee
Total Conduit	**$ 595,835,000**		

TTF = Transportation Trust Fund
PFC = Passenger Facility Charge
*= Insured Financings; however, the ratings reflected above are the underlying ratings (prior to insurance by the underwriters).

Debt Issuance Process

MDOT maintains a six-year financial plan, which contains a forecast of revenues and operating and capital expenditures. The forecast is a planning tool that enables MDOT to evaluate its long-term financial resources, identify projects to be funded, and develop a plan to cover required operating and capital expenditures. MDOT uses the forecast to plan debt issuances, ensuring that debt-financed projects do not exceed the permitted statutory level or internal debt controls. The Maryland Board of Public Works must approve all MDOT debt issuances.

The MDOT Office of Finance's Debt Management Unit works with MDOT's financial advisor, principal counsel and bond counsel to prepare for the sale. This includes obtaining the rating from the rating agencies, preparing and publishing all required notices and advertisements, and preparing and distributing the Official Statement.

MDOT uses an electronic bidding system for a competitive bid of the bonds. The award is granted to the bidder with the lowest true interest cost.